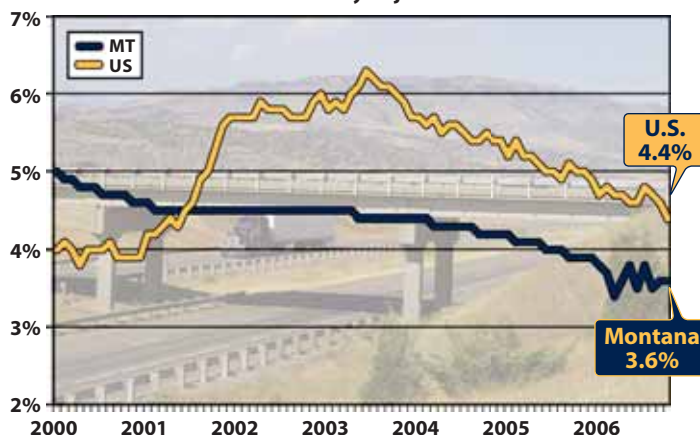


Montana Economy at a Glance



UNEMPLOYMENT RATE

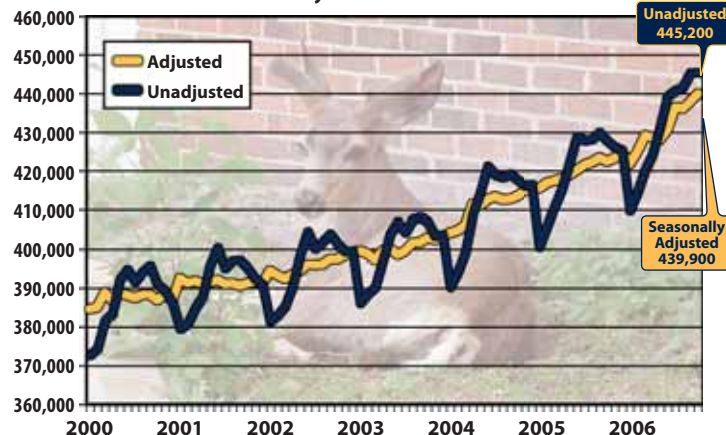
Seasonally Adjusted



Montana's seasonally adjusted unemployment rate remained steady at 3.6% from September to October 2006. The U.S. unemployment rate fell to 4.4% from 4.6% over the month.

NONFARM EMPLOYMENT

January 2000 - October 2006



Montana's seasonally adjusted nonagricultural payroll employment increased by 2,000 jobs (0.5%) from September to October 2006. The largest gains were in Government, which increased by 1,800 jobs (2.1%); Construction, up by 600 jobs (2.0%); and Professional & Business Services, also adding 600 jobs (1.7%).

NEW BUSINESS STARTS



In October we saw new business starts rebound with 338, up 48% from September. As has been the trend all year, new construction businesses led the way with 25% of the total new starts. Gallatin County remains at the top of the counties with over 17% of the new business starts in October, followed by Flathead County with 13%.

EMPLOYMENT BY INDUSTRY

Industry Employment (in thousands)	Oct.(P) 2006	Sept. 2006	Net Change	Percent Change
Total Non-Agricultural	439.9	437.9	2.0	0.5%
Natural Resources & Mining	8.7	8.5	0.2	2.5%
Construction	30.8	30.2	0.6	2.0%
Manufacturing	20.5	20.4	0.1	0.5%
Trade, Transportation, Utilities	90.1	89.9	0.2	0.2%
Information*	7.8	7.8	0.0	0.0%
Financial Activities	22.8	22.7	0.1	0.5%
Professional & Business Services	38.4	37.8	0.6	1.7%
Education & Health Services*	58.7	58.1	0.6	1.0%
Leisure & Hospitality	57.5	58.5	-1.0	-1.8%
Other Services*	17.1	17.2	-0.1	-0.6%
Total Government	88.3	86.5	1.8	2.1%

*These series are not seasonally adjusted (P) denotes preliminary figures

Research & Analysis Bureau - Montana Department of Labor & Industry
Ph: (406) 444-2430 or (800) 541-3904 Fax: (406) 444-2638
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"The Cowboy Boot"

Changing the Face of Montana's Economy?

By Tyler Turner, Economist*

Regional economies, such as Silicon Valley in California and the Research Triangle in North Carolina, have become famous for hosting high-tech, high-growth, research driven companies. These areas have departed from more traditional economic models and have staked a large portion of their future on developing and advancing knowledge based industries, through partnerships between universities, government, and private businesses. The impacts to workers in these areas have been significant, with substantial gains in wages, employment, income, and population.

Montana's economy and its workforce have been linked to industries related to natural resource extraction and refinement for over one hundred years. This has started to change recently for some areas of the state though, and has led Governor Schweitzer to identify a set of counties he calls the "Cowboy Boot" where high-tech industry growth and an economy which is based more in the service sector have begun to emerge. Though it appears that the economies of these counties have diverged from the traditional Montana model, analysis confirming this shift has yet to be done. This article will examine the

population, employment, and wage trends for the Cowboy Boot and the balance of Montana, draw comparisons between the Boot and an established regional economy, the Research Triangle, and offer possible explanations for the emergence of this new economy.

The Cowboy Boot versus the Balance of Montana

Fourteen counties, including Broadwater, Flathead, Gallatin, Granite, Jefferson, Lake, Lewis and Clark, Missoula, Park, Powell, Ravalli, Stillwater, Sweet Grass, and Yellowstone comprise the Cowboy Boot economy. These counties contain several major cities, the three largest universities, and the majority of state and federal government workers. Figure One outlines the change in population for the Cowboy Boot and the balance of the state from 1969 through 2004. The data reveals that in 1969 (the first year Bureau of Economic Analysis data was available for counties), 55% of Montana's population lived outside the Cowboy Boot. By 2004, this had shifted, with only 38% of the population living outside this region. Between 1969 and 2004 the Boot saw an increase in population of over 82%, while the remainder of the state declined by 6%.

Figure One: Percentage Change in Population for the Boot and Balance of Montana, 1969-2004



*The author would like to thank Dr. Brad Eldredge for his comments and assistance in gathering and analyzing data.

Figure Two: Percentage Change in Employment for the Boot and Balance of Montana, 1969-2004

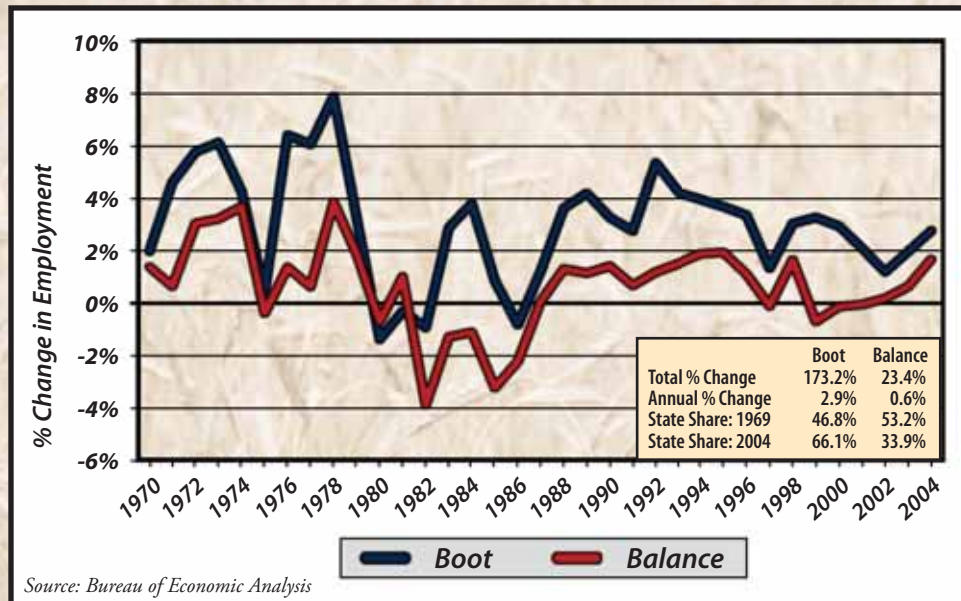


Figure Two shows annual percentage changes in employment for the two Montana regions. Much like population, less than half the state's employment was located within the Boot in 1969, but by 2004 over 60% of total employment was found in the region. Between 1969 and 2004 employment within the Boot grew by 173%, while the remainder of the state posted growth of 23%. This translates to employment increasing 7.4 times faster in the Boot relative to the rest of the state. The average annual growth rate for employment within the Boot was 2.9%, while the balance of the state grew at an annual rate of 0.6%.

Figure Three: Percentage Change in Total Wages for the Boot and Balance of Montana, 1969-2004

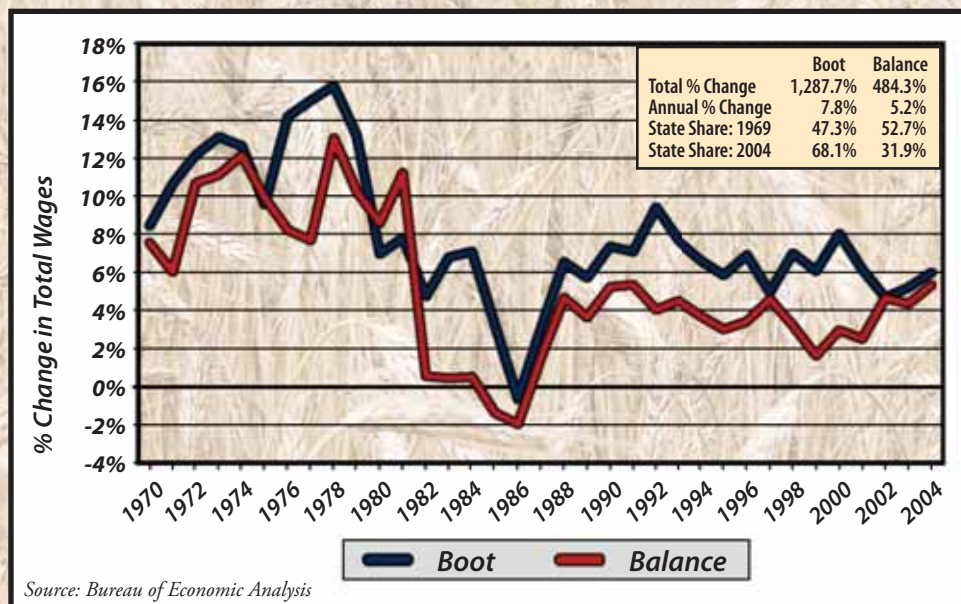


Figure Three depicts the annual percentage changes for total wages between the two regions. The Boot had less than 50% of wages in 1969, but increased to nearly 70% by 2004. The percentage change in total wages for the Boot from 1969 to 2004 was 1,288%, while the remainder of the state posted a gain of 484%. This equates to total wages growing about 2.6 times faster in the Boot than in the remainder of the state. The average annual growth rate for total wages in the Boot was 7.8%, while the balance of the state had a growth rate of 5.2%.

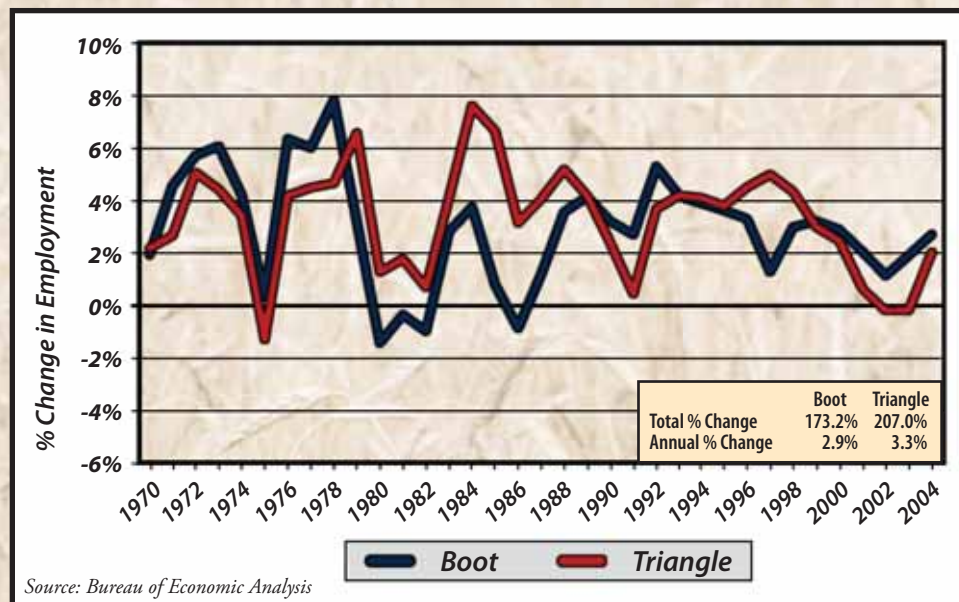
The Cowboy Boot versus the Research Triangle

The comparisons between the Boot and the rest of Montana are helpful in understanding the region's growth over time, but ultimately offer comparisons of two economies which are diverging. This leads to the question, how does the Boot compare to an established knowledge based economy? An evaluation of the Boot and The Research Triangle in North Carolina may help to answer this question.

The Research Triangle is a collection of eight counties, Chatham, Durham, Franklin, Granville, Harnett, Johnston, Orange, Person, and Wake, which are located in north central North Carolina. The Triangle has become known as a home for high-tech information and research-oriented firms and is one of the most well-known regional economies in the nation.

Using the same comparison measures as before, some interesting observations are obtained regarding the two economies. Figure Four examines employment growth and shows that the Boot and Triangle exhibited similar patterns over the last 35 years. The average rate of change

Figure Four: Percentage Change in Employment for the Boot and the Research Triangle, 1969-2004



for the Triangle was slightly higher than the Boot, but overall, neither economy appeared to differ greatly from the other.

Two time periods do stand out however. The employment losses of the 1980's were much harder on the Boot than the Triangle and likely indicate that the Boot economy was still linked to natural resources. Conversely, the late 1990's and early 2000's saw much larger swings in Triangle employment due to the internet bubble growth and bust. This indicates that while the Boot may be emerging as a high-tech area, it hasn't yet reached the levels achieved in North Carolina.

Figure Five: Percentage Change in Total Wages for the Boot and the Research Triangle, 1969-2004

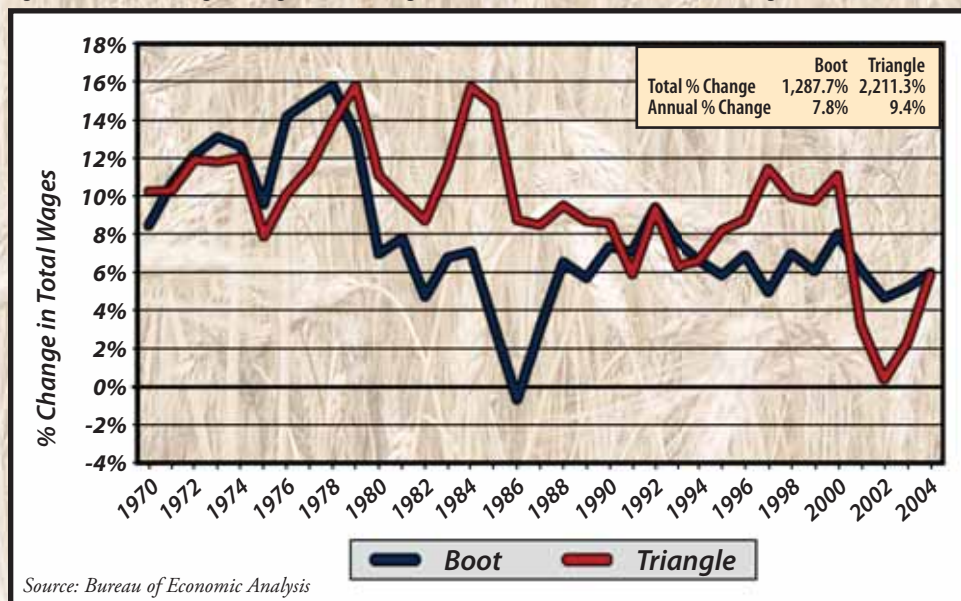


Figure Five tells the same story with total wages. A pronounced drop in wages for the Boot is seen in the 1980's, while a sharp rise and fall in wages are seen in the Triangle at the end of the century, compared with much smaller declines in the Boot. Overall, the Triangle experienced higher total and average growth, due in large part to the Boot's wage declines of the 1980's.

Regional Economic Diversity

The employment and wage graphs suggest that the technology based businesses have not yet become the central theme of the Boot economy. One method of confirming this conclusion is to compare the industry location quotients (LQs) for each region. LQs measure how the level of employment concentration in one area compares with another area. Table One lists LQs, derived from regional and national data, by industry for the Boot, the Triangle, and the balance of each state in 2004.

The Research Triangle has high levels of employment concentrated in the Construction, Information, Professional Services, Management of Companies, and Private Education industries. Conversely, the Boot has high levels of concentration in the Natural Resources, Construction, Retail Trade, Entertainment and Recreation, Food Services, and Government. High concentration in the construction industry is a function of increasing populations in both regions, the remaining industries show that differences still exist between the two regions and that the Boot is still in the process of transforming into a knowledge based economy.

Conclusion

The Cowboy Boot region is diverging from the rest of Montana, which is beneficial because much of the rest of Montana continues to suffer from the wage stagnation that has plagued the state for many years. Though natural resources continue to play a role, the Boot's economy is less concentrated in the traditional resource based industries which still are important to the rest of the state. The Boot now appears to be following a path similar to the Research Triangle, while the rest of the state continues to explore and expand economic opportunities linked to energy development and agriculture. Next month's Economy at a Glance will provide an in-depth analysis of the economy of the area outside and east of the Boot -- central and eastern Montana.

Sources:

Bureau of Labor Statistics, Quarterly Census of Employment and Wages, 2004.

Bureau of Economic Analysis, Local Area Annual Estimates, 1969-2004.

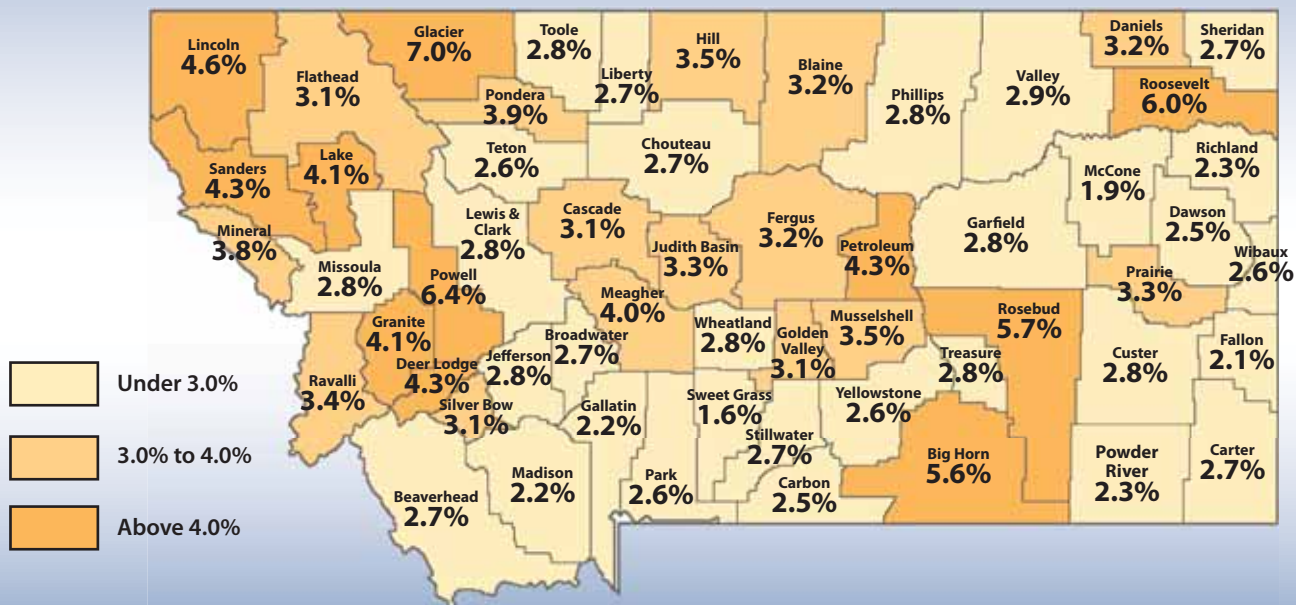
Table One: Location Quotients for Montana & North Carolina: 2004

	Boot	Balance of MT	Triangle	Balance of NC
Natural Resource & Mining	1.51	2.99	0.40	0.77
Construction	1.28	0.90	1.13	1.08
Manufacturing	0.52	0.26	0.98	1.49
Wholesale Trade	0.90	0.92	0.90	1.05
Retail Trade	1.22	1.07	0.94	1.00
Utilities & Transportation	0.86	0.99	0.57	1.02
Information	0.77	0.86	1.21	0.70
Finance	0.83	0.87	0.72	0.86
Real Estate	0.96	0.67	0.95	0.76
Professional Services	0.89	0.58	1.36	0.63
Management of Companies	0.22	0.14	1.18	1.31
Administrative Services	0.70	0.54	1.02	0.93
Private Education	0.53	0.63	1.40	0.66
Health Care	1.09	1.24	0.91	0.93
Entertainment & Recreation	1.71	1.55	0.74	0.87
Accommodation & Food	1.37	1.26	0.91	1.00
Other Services	1.27	0.99	0.85	0.76
Federal Government	1.33	2.16	0.76	0.77
State Government	1.75	0.97	2.44	1.00
Local Government	0.80	1.57	0.91	1.06

Source: Montana Department of Labor & Industry, Research & Analysis Bureau

COUNTY UNEMPLOYMENT RATES (NOT SEASONALLY ADJUSTED)

Montana Average Rate: 3.0%



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